BelAir

ENERGY CORPORATION

1997 ANNUAL REPORT

Corporate Profile

BelAir Energy Corporation is an emerging oil and gas company headquartered in Calgary, Alberta and is publicly listed on The Alberta Stock Exchange under the symbol ***"BGY"****. Incorporated in 1996, BelAir's growth has been based on strategic acquisitions and low risk development.*

Table of Contents

President's Message	1
Operations Review	5
Management's Discussion and Analysis	9
Management's Report	13
Auditors' Report to the Shareholders	14
Financial Statements	15
Notes to Consolidated Financial Statements	16
Corporate Information	IBC

Annual General Meeting

The Annual General Meeting of Shareholders will be held on Tuesday, May 5, 1998 at 9:00 am at the offices of McCarthy Tétrault in the R.G. Black Boardroom, 3300, 421 - 7th Avenue S.W., Calgary, Alberta.

Visit our websit @
"www.belairenergy.com"

President's Message

BelAir is off to a running start. Working to a very tight schedule, we have led the Company through a series of events that have firmly established BelAir Energy Corporation as an emerging junior oil and gas producer with strong potential for outstanding future growth:

1997	Accomplishments
July	Listed on The Alberta Stock Exchange as a Junior Capital Pool company.
October	Completed our Major Transaction by merging with Holdco Resources Ltd. (100 boepd) and changing the name to BelAir Energy Corporation.
November	Raised over $2,000,000 through a Special Warrants offering.
	Completed the acquisition of producing properties adding 140 boepd to production.
December	Completed the takeover of Windstar Energy Ltd., adding 160 boepd.
	Raised $900,000 through a private placement offering.

Ken MacRitchie
Vice President, Finance
Chief Financial Officer

Vic Luhowy
President and
Chief Executive Officer

Wayne Wilson
Vice President
Corporate Development

1998 Accomplishments

January — Completed the acquisition of producing properties adding 50 boepd and developed another 50 boepd of new production for a total of 500 boepd.

Negotiated a line of credit with our bank to support a 1998 capital expenditure program in excess of $3 million to be financed from cash flow and bank lines.

Our goal is to create an asset rich, top producing junior oil and gas company that provides superior shareholder value. We have completed the foundation phase of our growth strategy and have now moved into the development phase.

First Phase of our Growth Strategy Complete...

The intent of the first phase of our growth strategy was to build a solid base of low risk production and cash flow, a base that would be our springboard for growth in the future. Our initial target of producing at a level of 500 boepd was reached in early 1998. We achieved this goal in a cost effective way by acquiring small working interests in primarily non-operated producing properties and by the takeover of Windstar Energy Ltd. Most of our reserves are located in central Alberta, with 80 per cent of our production coming from 11 properties. Included in the establishment of our production base were almost 20,000 net acres of undeveloped land, a key to our future growth. Our disciplined and focused approach enabled us to identify and finance these opportunities in just six months.

Second Phase of our Growth Strategy Well Under Way...

In 1998, we have already embarked on phase two of our growth strategy which shifts the emphasis from the acquisition of producing properties to creating shareholder wealth "through the drill bit". With a solid base of low risk production and cash flow in hand, our goal is timely, steady and risk managed growth. At this point in our corporate development, it would not be prudent to build our company through full cycle exploration. We will therefore pursue this second phase of our growth by developing our prospective undeveloped lands and by participating in joint ventures with industry partners. In addition, we will expand the foundation of future years' growth through prospect generation and land acquisition. From our established cash flow and strong balance sheet, during 1998, we will fund a reserves and production development capital program in excess of $3 million.

Dynamic Management...

Ken MacRitchie, Wayne Wilson and I bring to our shareholders over seventy years of experience in oil and gas management and growth. Each one of us provide very different and individual skill sets to our team - finance, risk management, operations and industry contacts – the combination of which fosters a dynamic and complementary management philosophy: a philosophy that focuses on creating shareholder wealth. The success of the first phase of our growth strategy resulted from our ability to conclude timely acquisitions at good value because of our industry contacts and our ability to finance those acquisitions. The success of our next growth phase will also depend on these management attributes. We do not contemplate making major staff additions as we progress through this second phase of our growth. Instead, we will depend on contractual arrangements with top achievers in various disciplines to assist us in reaching our goals. We see our opportunities for on-going expansion in terms of a "life cycle curve" and industry conditions. We move quickly and aggressively when the right elements are in place, providing for surges of growth at optimum moments for a combination of low risk and high return.

BelAir's target in 1998 is to exit the year producing 800 boepd for an average production over the year of 600 boepd. In the current environment, this target is both prudent and manageable and we look forward to reporting on our progress through the year.

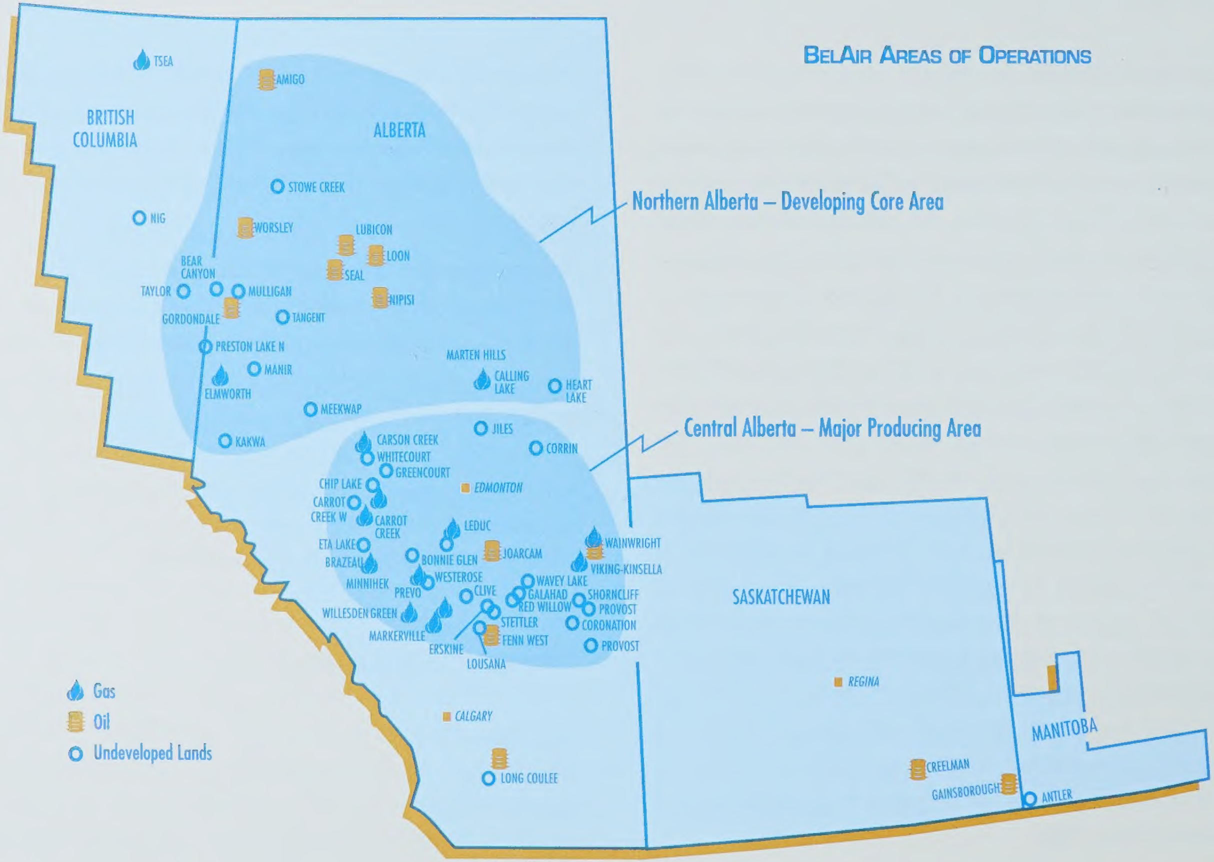
Tremendous Support by Shareholders...

We thank all of our shareholders and supporters in this year, our first year of operation and development. From our actively involved Board of Directors to our seed capital investors and our latest investors, we thank you for your support and look forward to working with you to create value for you. In addition, we welcome all of the previous shareholders of Windstar to BelAir - we are confident that we will all reap the rewards of the merger of our two companies.

Victor Luhowy

Victor M. Luhowy
President and Chief Executive Officer
March 26, 1998

BelAir Areas of Operations



BelAir ENERGY CORPORATION

Operations Review

Central Alberta

The majority of BelAir's production and undeveloped lands are in central Alberta.

Of our 500 boepd of production, almost half (90 bpd of oil, 25 bpd of NGLs and 1,225 Mcfpd of gas) is produced from our properties in central Alberta.

In addition, we have numerous projects being developed on our lands and through joint ventures on other lands.

Brazeau River Unit No. 1

In the Brazeau River Unit No.1, the operator is proposing to drill a well into a new Elkton Shunda gas pool. The well is expected to be drilled during the third quarter of this year.

Chip Lake

During the first quarter of 1998, we negotiated a land swap whereby we acquired a 75% working interest in 4 3/4 sections in the Chip Lake area. The lands are offsetting significant industry activity for gas production. We are in discussions with several parties regarding a joint venture to develop these lands.

Willesden Green

We have farmed in on 1 1/4 sections of land of a Cardium prospect. By paying 50% of the drilling costs, we earn a 50% working interest in the wells before payout, reverting to a 32.5% interest after payout. We expect to spud the first well in the first quarter.

Northern Alberta

Another developing core area for BelAir includes producing properties and undeveloped lands in northern Alberta.

The producing areas in northern Alberta contribute 40% (90 bpd of oil, 10 bpd of NGLs and 1,030 Mcfpd of gas) of BelAir's production base. In addition, we are participating in new joint ventures and developing our undeveloped lands.

Heart Lake

BelAir participated in a seismic program and 17 section land acquisition program in late 1997 and early 1998. As a result of the seismic shoot, we have identified four drilling locations prospective for Colony gas. Our land block is surrounded by producing Colony gas wells and an available gas gathering infra-structure. The first two wells are expected to be drilled in the first half of 1998. BelAir is participating as to a 16% working interest.

Kakwa

The Kakwa area has become very active lately with high prices being paid in Crown land sales. On lands adjoining our land to the west, a bonus of $2.7 million was paid for 3 sections of land while on lands further to the east, a bonus of $1.3 million was paid for 7 3/4 sections of land. BelAir owned a 40% working interest in 3 sections of land. The operator proposed a $6.3 million deep test well which was outside our risk management parameters. We swapped a 35% working interest portion (retaining a 5% working interest) for a 75% working interest in 4 3/4 sections of land in the Chip Lake area. As a result, we maintained a manageable 5% working interest in a play that could potentially result in the discovery of a significant gas pool. At the same time, we acquired a high working interest position in lands in another very active and prospective area where we also have gas production. The well in Kakwa will take over three months to drill and is expected to spud this summer.

Southern Alberta and South East Saskatchewan

We have minor interests in non-operated properties in southern Alberta and southeastern Saskatchewan which contribute just over 10% (65 bpd of oil and 10 Mcfpd of gas) to our total production. Planned activity during 1998, will further add to the production base in these areas.

Gainsborough

The operator is planning to drill two horizontal wells at Gainsborough this summer. BelAir has a 7.35% working interest in this property.

Undeveloped Land Holdings

	Gross Acres	Net Acres
Alberta	44,820	16,653
British Columbia	8,500	1,418
Saskatchewan	11,545	1,317
Total	**64,865**	**19,388**

Production Data

Area	Working Interest %	Gas (Mcfpd)	NGLs (bpd)	Oil (bpd)	Equivalent (boepd)
Nipisi	36	0	0	70	70
Gainsborough	7	0	0	60	60
Joarcam	100	0	0	50	50
Minnehik	50	200	16	0	36
Prevo	various	250	0	10	35
Calling Lake	28-45	330	0	0	33
Chip Lake	50-63	260	6	0	32
Fenn West	14-46	80	0	24	32
Carson Creek	20	180	2	0	20
Brazeau River No.1	<1	175	2	0	20
Elmworth	100	150	1	0	16
Other	various	580	8	30	96
Total		**2,205**	**35**	**244**	**500**

Reserves

The volumes and present values of BelAir's petroleum and natural gas reserves have been evaluated as at December 31,1997 in three separate independent reserve evaluations. The first is an evaluation by Martin Petroleum & Associates of properties acquired by Holdco Resources Ltd. prior to the amalgamation of Holdco with the Corporation on October 31, 1997. The second is an evaluation by Brusset Consultants of properties acquired by BelAir on November 28, 1997 and the third is an evaluation of the properties of Windstar Energy Ltd. which was acquired December 18, 1997. The 1997 year end reserves report for BelAir Energy Corporation is presented here as a compilation of the three independent engineering evaluation reports. The volumes presented in the following tables represent the Corporation's working interest in reserves before royalties.

Summary of Reserves Volumes

					Present Worth (in thousands of dollars) Before Income Taxes, Escalated Prices			
	Oil Mbbl	NGLs Mbbl	Sales Gas MMcf	Equivalent Mboe	Undiscounted	10%	15%	20%
Proved Producing	214.4	86.9	3,616.1	662.9	8,772	5,649	4,832	4,242
Total Proved	230.1	89.4	4,599.8	779.5	9,732	6,308	5,398	4,737
Proved plus Probables (Unrisked)	317.0	135.9	6,771.8	1,130.1	14,872	8,789	7,344	6,334
Proved plus Probables (Risked 50%)	273.6	112.7	5,685.8	954.8	12,302	7,549	6,371	5,536

Managements' Discussion and Analysis of Financial Condition and Results of Operation

BelAir Energy Corporation resulted from the amalgamation of Gold Butte Energy Inc. and Holdco Resources Ltd. The results of operations include the properties of Holdco which were acquired effective July 1, 1997. The consolidated results also include properties acquired on November 28, 1997. On December 18, 1997, BelAir acquired approximately 93% of the outstanding shares of Windstar Energy Ltd. The consolidated results include BelAir's proportionate share of Windstar revenues, royalties and expenses for the period December 19, 1997 to December 31, 1997.

Revenue

Petroleum and natural gas sales for the period July 1, 1997 until December 31,1997 were $480,316. These proceeds resulted from the sale of 164,046 Mcf of natural gas, 3,446 barrels of oil and 3,807 barrels of natural gas liquids at an average price of $20.30 per barrel of oil equivalent.

Royalties

Royalty expense associated with these revenues amounted to $85,345 or $3.61 per barrel of oil equivalent.

Operating Expenses

Working interest operating costs were $107,365 or $4.54 per barrel of oil equivalent.

Other Income

Other income for the year amounted to $7,285 from interest on cash balances in excess of current needs.

General and Administrative Expense

General and administrative expense for the year amounted to $174,794. General and administrative expenses include expenses incurred for the full year, including the time period prior to the acquisition of oil and gas production in July, 1997. Approximately 10% of this amount represented management salaries and 15% was paid for professional services such as legal and audit, rent on office premises accounted for 20% of the

total, while other third party consulting paid in connection with the identification of a Major Transaction represented approximately 30% of the total.

Interest

Interest expense for the year totalled $14,028 and was related primarily to interest due on a note payable in connection with the acquisition of the properties by Holdco Resources Ltd.

Depletion, Depreciation and Site Restoration

Depletion, depreciation and amortization expense for the year amounted to $158,596. This amount included a provision for site restoration in the amount of $10,378.

Income

The consolidated net loss of the Corporation for the year ended December 31, 1997 amounted to $52,527 or $0.01 per share.

Cash Flow

Consolidated cash flow for the year amounted to $106,069 or $0.01 per share.

Capital Expenditures and Additions

During the year, BelAir had capital additions in the amount of $6,465,153. The Corporation spent $5,198,464 on investing activities of which $2,337,311 was attributed to the acquisition of Windstar Energy Ltd.. This transaction was accounted for using the purchase method and was allocated as follows:

Capital Additions	$3,604,000
Working Capital Deficiency	($1,235,404)
Site Restorations	($31,285)
	$2,337,311

Reserves

As at January 1,1997, BelAir (then Gold Butte Energy Inc.) had booked no reserves. BelAir Energy Corporation resulted from the amalgamation on October 31, 1997 of Gold Butte Energy Inc. and Holdco Resources Ltd. which had producing oil and gas properties. BelAir acquired additional producing oil and gas properties effective November 28, 1997 and on December 18, 1997 BelAir acquired 93% of the outstanding shares of Windstar Energy Ltd. Reserves attributable to each of Holdco, the November 28, 1997 acquisition and Windstar were evaluated by

independent petroleum engineering firms Martin Petroleum & Associates, Brusset Consultants and Gilbert Laustsen Jung Associates Ltd., respectively, as at December 31, 1997.

Liquidity and Capital Resources

At December 31, 1997, BelAir Energy Corporation had 17,476,966 common shares outstanding. Based on a closing price of $0.55 per share, market capitalization was $9,600,000. Working capital at December 31, 1997, was $310,590. At year end, BelAir had two debentures outstanding in the amount of $175,000 and $300,000. Subsequent to year end, the $300,000 debenture was repaid. At year end, BelAir had drawn $410,000 of its $3,100,000 revolving term credit facility with the Canadian Western Bank. Bank credit facilities will be employed to finance capital investment activities that immediately generate cash flow to service and retire debt utilized. BelAir will continue to finance its short term requirements through internally generated cash flow. BelAir's 1998 capital program, in excess of $3 million, will be financed by cash flow and bank debt.

Cash flow from operations was $294,981. This amount represents a portion of the operating year. BelAir's production began on July 1,1997 at 100 Boepd, adding 140 Boepd on November 28, 1997 and a further 160 Boepd on December 18, 1997 with the takeover of Windstar. During 1997, cash provided by financing activities was $6,621,280 including capital of $6,090,280 from issuance of shares, net of costs of $356,031 (5.7%).

In November, 1997, a Special Warrants financing was done for gross proceeds of $2,025,000. Commission costs were $102,870 or 5.2% of the offering. The private placement entitled the holders, on conversion of a Special Warrant, the right to acquire a unit consisting of one "flow through" common share and one common share at no additional cost. On conversion, 4,500,000 common shares will be issued. Proceeds of the financing were used to acquire producing oil and gas properties at a cost of $1,565,000 and to fund future oil and gas development activities.

In 1998, BelAir and its wholly owned subsidiary, Windstar Energy Ltd., renounced $1,500,000 in 1997 Canadian exploration and deemed Canadian exploration expense to flow through shareholders.

In December, 1997, BelAir issued 2,000,000 common shares and 1,000,000 common share purchase warrants in a private placement for gross proceeds of $900,000. Net proceeds were used to pay for producing oil and gas properties acquired subsequent to year end and to fund oil and gas development activities. In December, 1997, 8,548,621 common shares were issued or reserved for issue to satisfy the purchase of all of the outstanding shares of Windstar Energy Ltd.

Environmental and Safety Policy

BelAir has implemented a safety and environmental policy that is designed to comply, at a minimum, with current governmental regulations for the oil and gas industry. BelAir is committed to minimizing the effects of our activities on the environment and to protecting our employees and contractors. BelAir implemented a Corporate Emergency Response Plan that adheres to government policies and regulations. BelAir continually monitors government standards to ensure compliance with any changes to these policies and regulations.

An Environmental and Safety Committee has been established to report to the Board of Directors on a regular basis. BelAir maintains comprehensive insurance to cover risks of well blow outs and pollution.

Business Risks

The oil and gas industry is subject to uncertainties and risks including commodity prices, product market demand, exploration success, transportation interruptions, foreign exchange and interest rates, government regulation and taxes and environmental and safety concerns.

BelAir minimizes these risks by diligent management of those factors that it can control. These factors are managed by the employment of highly qualified and experienced professionals, a strong and flexible financial position, proactive environmental and safety operating procedures and a focus on low cost reserve additions and cash flow optimization to sustain future growth. Extensive geological, geophysical, engineering, environmental and financial analysis are performed on drilling of new prospects and potential acquisitions. BelAir can mitigate certain of these risks by operating in geographical areas characterized by low finding and development costs. Commodity price fluctuations can be offset by maintaining a balanced portfolio of oil and gas projects and production.

Management's Report

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting principles generally accepted in Canada as outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements have been prepared within acceptable limits of materiality. Financial information presented throughout the Annual Report has been prepared and reviewed by management to ensure it is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements, principally through the Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised of a majority of independent directors which are not employees of the Company. The Audit Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities and to review the financial statements and the external auditor's report.

KPMG, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders, to audit the financial statements in accordance with generally accepted accounting standards in Canada and provide an independent professional opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The financial statements including the notes have been approved by the Board of Directors on the recommendation of the Audit Committee.

Victor M. Luhowy
President and CEO

Kenneth D. MacRitchie
Vice President, Finance and CFO

Auditors' Report to the Shareholders

We have audited the consolidated balance sheet of BelAir Energy Corporation as at December 31, 1997 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
February 6, 1998 except
for note 10, which is as of
March 19, 1998

Consolidated Balance Sheet

As at December 31, 1997

Assets		
Current assets:		
Cash	$	275,819
Short term deposits		800,000
Accounts receivable		716,351
Prepaid expenses		167,047
Current portion of notes receivable		17,109
		1,976,326
Notes receivable *(note 3)*		36,891
Capital assets *(note 4)*		6,316,935
	$	**8,330,152**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$	1,360,389
Debenture payable *(note 6)*		300,000
Obligation under capital lease		5,347
		1,665,736
Bank loan *(note 5)*		410,000
Debenture payable *(note 6)*		175,000
Provision for future site restoration		41,663
Shareholders' equity:		
Share capital *(note 7)*		3,908,982
Share capital to be issued *(note 2)*		156,298
Special Warrants *(note 7)*		2,025,000
Deficit		(52,527)
		6,037,753
Commitments *(note 9)*		
	$	**8,330,152**

See accompanying notes to consolidated financial statements

On behalf of the Board: **Director** **Director**

Consolidated Statement of Operations and Deficit

Year ended December 31, 1997

Revenue:		
Petroleum and natural gas sales	$	480,316
Royalties		(85,345)
Other		7,285
		402,256
Expenses:		
Operating		107,365
General and administration		174,794
Interest		14,028
Depletion, depreciation and amortization		158,596
		454,783
Net loss being deficit, end of year	**$**	**52,527**
Per share amounts:		
Basic and fully diluted	$	(0.01)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Year ended December 31, 1997

Cash provided by (used in):		
Operations:		
Net loss	$	(52,527)
Item not involving cash:		
Depletion, depreciation and amortization		158,596
		106,069
Change in non-cash operating working capital		(453,066)
		(346,997)
Financing:		
Share issue costs		(356,031)
Issue of share capital		4,265,013
Issue of Special Warrants		2,025,000
Share capital to be issued		156,298
Bank loan		410,000
Debenture payable		175,000
Note receivable		(54,000)
		6,621,280
Investments:		
Business acquisition *(note 2)*		(2,337,311)
Additions to capital assets		(2,861,153)
		(5,198,464)
Increase in cash being cash, end of year	$	**1,075,819**

Cash is comprised of cash (bank indebtedness) and short term deposits

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 1997

Incorporation and basis of presentation

BelAir Energy Corporation ("BelAir" or "the Corporation") was formed on October 31, 1997 pursuant to an amalgamation agreement between Gold Butte Energy Inc. ("Gold Butte") and Holdco Resources Ltd. ("Holdco") dated August 29, 1997 (see note 2).

Gold Butte was incorporated as 709197 Alberta Ltd. under the Business Corporations Act (Alberta) on September 12, 1996. On October 31, 1996, a Certificate of Amendment was received from the Alberta Government which approved the name change to Gold Butte. Gold Butte commenced operations on May 28, 1997.

Holdco was incorporated as 709199 Alberta Ltd. under the Business Corporations Act (Alberta) on September 12, 1996. 709199 Alberta Ltd. changed its name to Holdco on February 26, 1997. Holdco commenced operations on July 1, 1997.

The predecessor corporation being Holdco and Gold Butte were inactive from the date of incorporation to December 31, 1996. These financial statements include the accounts of the Corporation for the year ended December 31, 1997 and its subsidiary Windstar Energy Ltd. ("Windstar") for the period from December 19, 1997 to December 31, 1997 (see note 2).

1. Significant accounting policies

(a) Capital assets

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized into cost centers on a country by country basis. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to

equivalent volumes of crude oil based on the approximate relative energy content.

The Corporation applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Corporation's year end, and the costs of unproven properties less impairment. Future net revenues are undiscounted and are calculated after deducting general and administrative costs, financing costs, income taxes and site restoration and abandonment costs.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates.

Depreciation of furniture and office equipment is provided using the straight-line method based upon estimated useful lives at rates of 10% to 35%.

The Corporation has capitalized business start-up costs incurred in connection with identification of prospective transactions until June 1, 1997 in the amount of $28,100.

(b) Interest in joint ventures

Substantially all of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(c) Future site restoration and abandonment costs

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is included in depletion and depreciation expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(d) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) Per share amounts

Per share amounts are calculated using the weighted average number of shares outstanding during the year. Fully diluted per share calculations reflect the exercise of options and warrants at the later of the date of issuance or the beginning of the year. Anti-dilutive options and warrants are not included in the calculation.

(f) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

2. Acquisition

(a) Effective December 18, 1997, the Corporation acquired approximately 93% of the outstanding common shares of Windstar Energy Ltd. for total consideration of 7,976,966 common shares of the Corporation with an attributed value of $2,181,013. The acquisition was accounted for using the purchase method as follows:

Allocated:		
Capital assets	$	3,604,000
Current assets		441,661
Current liabilities		(1,677,065)
Provision for site restoration		(31,285)
	$	**2,337,311**
Cost of acquisition:		
Share capital issued	$	2,181,013
Shares to be issued		156,298
	$	**2,337,311**

The Corporation has commenced procedures under the compulsory acquisition provisions contained in the Business Corporations Act (Alberta) to acquire the remaining 952,755 common shares of Windstar that were not tendered to the take-over bid.

(b) On October 29, 1997 at a special meeting of the holders of common shares of Gold Butte and Holdco, approval was received for the Amalgamation of Gold Butte and Holdco. Under the terms of the Amalgamation Agreement the common shareholders of each of Gold Butte and Holdco received one common share of BelAir for each common share of Gold Butte and Holdco held. The nature of the transaction was such that no acquirer could be identified , therefore the amalgamation has been accounted for as a pooling of interests whereby the financial statements of BelAir reflect the combined historical carrying values of the assets, liabilities, and shareholders equity, and the historical operating results of Gold Butte and Holdco for the period ended October 31, 1997.

The assets and liabilities, at book values, at the date of the business combination are as follows:

	Gold Butte	Holdco
Assets	$ 394,265	$ 1,442,267
Liabilities	(17,100)	(733,623)
Net assets	$ 377,165	**$ 708,644**

The revenues and loss of Gold Butte and Holdco for the period from January 1, 1997 to October 31, 1997 are as follows:

	Gold Butte	Holdco
Revenues	$ 4,165	$ 228,888
Net loss	**25,747**	10,356

Costs of $15,500, consisting of professional and advisory costs were incurred to effect the business combination and have been charged to capital in the current period.

3. Notes Receivable

The notes receivable are due from officers and directors of the Corporation. Interest on the notes is calculated monthly at 5% per annum in arrears commencing January 15, 1998. The notes are repayable in blended installments aggregating $808 payable twice monthly until January 31, 2001. The notes are secured by an assignment of 60,000 common shares of the Corporation which is releasable to the borrower as principal payments are made, provided that, at the time of the release, the value of the remaining security is at least 1.25 times the principal amount outstanding.

4. Capital Assets

	Cost	Accumulated depletion, depreciation and amortization	Net book value
Petroleum, natural gas properties, equipment	$ 6,400,082	$ 146,644	$ 6,253,438
Furniture, office equipment	65,071	1,574	63,497
	$ 6,465,153	**$ 148,218**	**$ 6,316,935**

The depletion calculation has excluded unproven properties of $1,195,000.

As at December 31, 1997 the estimated future site restoration costs to be accrued over the remaining proved reserves are $203,000.

5. Bank loans

(a) The Corporation has an available revolving term facility with a bank in the amount of $2,000,000. Interest is payable on this credit facility at bank prime rate plus 3/4%. Collateral for the debt is a general security agreement, an environmental indemnity, a registered first fixed and floating charge debenture in the minimum amount of $5,000,000 over assets to be purchased including a supplemental debenture specifically charging assets.

(b) Windstar has an revolving term loan facility of $1,100,000 of which $410,000 is outstanding at December 31, 1997. The loan facility bears interest at prime plus 3/4% secured by a general security agreement covering all present and after acquired property, a first fixed and floating charge debenture in the minimum amount of $2,000,000 over assets, environmental indemnity, subordination of all other debt and assignment of insurance.

6. Debentures payable

(a) A subordinated debenture in the amount of $175,000 due July 1, 1999 was issued to the vendor of certain oil and gas properties. Interest is payable semi-annually beginning January 1, 1998 at a

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rate of 6% per annum. The debenture may be repaid at any time prior to maturity at the Corporation's option. At maturity, the repayment amount will be calculated using a straight line formula with $175,000 being repaid if trading value of the shares of the Corporation for the 10 days previous to repayment is equal to or greater than $0.40. The debenture amount repayable is $75,000 if the average trading value of the Corporation's shares in the 10 days prior to repayment equals $0.25 or less. A straight line sliding scale formula is in place to calculate the amount repayable if the average trading value of the Corporation's shares for the ten days prior to repayment is between $0.25 and $0.40. The debenture payable is secured by a general security agreement covering all present and future assets of the Corporation.

(b) Windstar convertible debenture in the amount of $300,000, secured by a subordinated floating charge on all property of Windstar.

7. Capital Stock

(a) Authorized

Unlimited number of voting common shares

Unlimited number of non-voting first preferred shares, issuable in series

(b) Common shares issued

	Number of Shares	Amount
Initial private capital	4,000,000	$ 384,000
Private placement	1,000,000	250,000
Private placement for oil and gas properties	1,000,000	250,000
Public offering	1,500,000	300,000
Private placement	2,000,000	900,000
Issued on business acquisition	7,976,966	2,181,013
	17,476,966	4,265,013
Share issuance costs		(356,031)
	17,476,966	**$ 3,908,982**

(i) Of the common shares issued to date 4,570,000 are held in escrow and may not be released from escrow and traded without the written consent of the Executive Director of the Alberta Securities Commission, subject to any earlier automatic releases that may be permitted under a policy adopted by the Alberta Securities Commission.

(ii) The Corporation has established a Stock Option Plan for the benefit of directors, officers and key employees and consultants of the Corporation. Pursuant to the Stock Option Plan, options for a total of 750,000 Common Shares have been granted to the directors and officers of the Corporation. These options may be exercised at prices of $0.20 to $0.36 per share and until August 29, 2002.

(iii) The Corporation has reserved an aggregate of 150,000 Common Shares pursuant to an option granted to McDermid St. Lawrence Securities Ltd. contained into an agency agreement dated March 27, 1997. Such option may be exercised at a price of $0.20 per share until January 2, 1999.

(iv) The Corporation has outstanding options for a total of 46,800 common shares to former Windstar employees. These options are exerciseable at prices ranging from $0.42 per share to $0.83 per share at various dates until May, 2002.

(v) Special Warrants

On November 24, 1997, the Corporation issued 2,250,000 Special Warrants at $0.90 each for gross proceeds of $2,025,000 on a private placement basis. Each Special Warrant entitles the holder to receive upon exercise or deemed exercise and without payment of any additional consideration, one common share and one flow through common share of the Corporation. If the Corporation has not obtained a receipt for the final version of a prospectus from the securities commission in the province in which the holder resides on or before March 23,1998, any Special Warrants held by investors resident in such province will be entitled upon exercise or deemed exercise of such Special Warrants and without payment of any additional consideration, to be issued 1.1 common shares and one flow through common share for each Special Warrant held. The Special Warrants may be exercised at any time and will be deemed to be exercised by the holders on the earlier of five

days after the date on which a receipt for the final version of a prospectus, issued by the securities commission in the province in which the holder resides, is obtained by the Corporation, or November 24, 1998.

(vi) Warrants

On December 18, 1997, in conjunction with a private placement, the Corporation issued 1,000,000 common share purchase warrants exerciseable at any time until December 18, 1998 on the basis of one warrant plus $0.70 for each common share.

In conjunction with the acquisition of Windstar, the Corporation issued 857,160 common share purchase warrants in exchange for previously issued Windstar common share purchase warrants. Each common share purchase warrant is exerciseable on the basis of one warrant plus $0.67 for each common share at any time until September 24, 1998.

8. Income taxes

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 44.6% to income before income taxes. The difference relates to the following items:

Statutory tax rate:		44.6%
Expected recovery	$	(23,400)
Non-deductible crown charges		39,657
Resource allowance		(13,591)
Other		713
Benefit of losses not recognized		(3,379)
	$	–

As at December 31, 1997 the Corporation has a commitment to renounce $1,512,500 of income tax attributes associated with oil and gas exploratory and development activities.

The Corporation has approximately $385,000 of loss carryforwards available to reduce future taxable income. Of this amount, approximately $169,000 is available for the reduction of future taxable income of Windstar. These losses begin to expire in 2000.

9. Commitments

The minimum rentals payable under long-term office leases, exclusive of certain operating costs, for which the Corporation is responsible are as follows:

1998	$	26,838
1999		28,703
2000		30,938
2001		31,311
2002		5,219
	$	123,009

10. Subsequent events

(a) On January 14, 1998, the Company issued 370,000 options to purchase common shares of the Company for an exercise price of $0.40 per common share to Directors and Officers of the Company subject to the approval of the Alberta Stock Exchange. The options expire on February 12, 2003.

(b) On February 12, 1998 the Company entered into an agreement to acquire oil and gas properties for a total purchase price of $625,000.

(c) On February 23, 1998 the Corporation acquired the remaining 952,755 common shares of Windstar that were not tendered to the take-over bid.

(d) On March 5, 1998 the Windstar convertible debenture was repaid.

(e) Pursuant to an agency agreement dated November 14, 1997 the Corporation has agreed to file a prospectus relating to the qualification for distribution of 4,500,000 common shares of the Corporation issuable upon the exercise of 2,250,000 previously issued special warrants.

Corporate Information

Board of Directors

Stephen E. Balog^
Calgary, Alberta

C. David Banks*
Calgary, Alberta

Donald R. Burns
Kelowna, British Columbia

Victor M. Luhowy^
Priddis Greens, Alberta

Kenneth D. MacRitchie +
Calgary, Alberta

Owen C. Pinnell * +
Calgary, Alberta

Mark D. Widney +
Ardrossan, Alberta

+ Audit Committee
** Compensation Committee*
^ Environment and Safety Committee

Officers

Victor M. Luhowy
President and Chief Executive Officer

Wayne R. Wilson
Vice President, Corporate Development

Kenneth D. MacRitchie
Vice President and Chief Financial Officer

Ross O. Drysdale
Corporate Secretary

Auditors

KPMG
Chartered Accountants
1200, 205 Fifth Avenue S.W.
Calgary, Alberta

Legal Council

McCarthy Tetrault
3200, 421 Seventh Avenue, S.W.
Calgary, Alberta

Transfer Agent

Montreal Trust Company of Canada
630, 530 Eighth Avenue S.W.
Calgary, Alberta

Bank

Canadian Western Bank
6606 MacLeod Trail South
Calgary, Alberta

Head Office

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Facsimile: (403) 263-8119

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: "BGY"

Abbreviations

bbls	Barrels
Mbbls	Thousand barrels
boe	Barrel of oil equivalent
Mboe	Thousand barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bpd	Barrels of oil or NGLs per day
Mcf	Thousand cubic feet
Mcfpd	Thousand cubic feet per day
Mmcf	Million cubic feet
Mmcfpd	Million cubic feet per day
Bcf	Billion cubic feet
NGLs	Natural gas liquids

Natural gas is equated to oil on the basis of 10 Mcf = 1 boe

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